The background to the euro crisis—Part 1

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Part 1 | Part 2

The following article is based on a report given by Peter Schwarz, a member of the editorial board of the World Socialist Web Site and secretary of the International Committee of the Fourth International, at a meeting of the Socialist Equality Party (PSG) held in Berlin on January 7, 2012.

For the last three years the world economy has undergone its deepest crisis since the 1930s. Europe has been especially hard hit. The survival of the euro and the European Union is now in question. To understand the significance and consequences of this crisis it is not sufficient to study its immediate economic forms. It is necessary to examine the social relations that lie behind these forms.

In general, the crisis is presented as the result of over-indebtedness on the part of several European countries. It is asserted that their debts have reached a level where they can no longer be repaid and refinanced. This assertion, however, does not stand up to a closer examination. Thus, the total indebtedness of the European Union (around 80 percent of GDP) is significantly below that of the US (100 percent) or Japan (220 percent). US debt has increased dramatically during the past five years from less than 60 percent to more than 100 percent. Nevertheless, the US is still able to finance its debt without major problems.

Apart from Greece (158 percent), even the European countries affected most by the crisis are not excessively indebted: In Spain, the national debt level is 68 percent, in Portugal 102 percent, in Ireland 112 percent, and in Italy 120 percent, about the same level as when it joined the euro zone. German (82 percent), French (85 percent) and British (80 percent) government debt are around the average level of the OECD countries.

There must be other causes to account for the fact that Europe has become the target of the international financial markets. To probe deeper it is necessary to consider the social changes that have taken place over the last three decades.

Social polarization

Following the Second World War, the ruling classes in Western Europe were forced to make social concessions in order to preserve the capitalist system. The responsibility of capitalism for fascism and war were still fresh in people’s memory and support for socialism was widespread. Even in the early 1970s, when an international strike movement developed on the heels of the civil rights movement in the US, the international student revolts and the anti-Vietnam war movement, the working class won considerable wage increases and other social gains.

In 1980, however, the bourgeoisie went on a counteroffensive that continues to this day. This counteroffensive was closely connected with the figures of Margaret Thatcher and Ronald Reagan, but was not confined to Great Britain and the United States. US President Reagan broke the PATCO air traffic controllers union at that time, while the British Prime Minister Margaret Thatcher took on the British miners. Both combined their attack on the working class with a deregulation of financial markets and a strengthening of the most parasitic elements of finance capital at the expense of their countries’ industrial base.

The result was an increase in social inequality, which had significantly declined in the post-war period. This development is confirmed by numerous statistical studies. From 1910 to 1970, the share of national income possessed by the super-rich declined continually across the globe. This trend reversed from 1970 onwards. This tendency was particularly pronounced in the UK and the US, where the proportion of total income held by the richest one percent fell from 20 percent in 1910 to 10 percent in 1950. Today the share held by the super-rich has returned to the level of 1910.

During the past 30 years, the income of the poorest 20 percent in the United States declined by 4 percent, while the income of the richest one percent rose by 270 percent. During the same period, the share of the financial sector in the profits of the entire corporate sector rose from 10 to 40 percent. This demonstrates that the increase in social inequality was closely bound up with the growth of the financial sector.

The previous figures refer to income. In terms of wealth the social polarization is even more stark. Today 40 percent of global assets are owned by the richest one percent of the world's population, 51 percent by the wealthiest two percent and 85 percent by the richest 10 percent. For their part the poorest 50 percent of the world's population possess less than one percent of global wealth.

The same process of social polarization took place on the European continent, but with some delay. This delay is expressed in the ratio of public spending to GDP, which averages 46 percent in the euro zone, well above the OECD average of 41 percent. This is why Europe, notwithstanding the social and wage cuts carried out in recent decades, is still regarded as a haven of the welfare state by the international financial aristocracy.

The European leader in this respect is France, with a government-spending ratio of 53 percent of GDP. In the US, the equivalent figure is just 39 percent, and in the banking paradise of Switzerland only 33 percent. The ratio in Germany is 43 percent, only slightly above the OECD average. Due to the Agenda 2010 program introduced by the government of Gerhard Schröder it has fallen by five percent in the last ten years.

These figures illustrate why Europe is caught in the crossfire of international financial markets. For the representatives of finance capital, the sums spent by European states on pensions, education, health and other social services and infrastructure are far too high. They are determined to use the crisis to reverse all of the social gains and democratic rights won by the worker's movement in the course of the last six decades.

Greece serves as a testing ground. The representatives of high finance are threatening the country with bankruptcy and imposing one austerity package after another. Wages are being slashed, social services cut and public services dismantled. It is calculated that the standard of living of an average Greek will shrink within a few years by 30, 40 or even 50 percent. Outside of wartime this is an unprecedented decline.

This social counterrevolution cannot be carried out by democratic means. The troika of the European Union, International Monetary Fund and European Central Bank have assumed control of the Greek budget and replaced the country's democratically elected government with an illegitimate government of technocrats. In order to intimidate the working class, the fascist party LAOS has been included in the government.

European leaders have decided to transform the whole of Europe into an austerity zone along the lines of the Greek model. This is the significance of the EU summit decision of December 8-9, 2011 to insert a debt brake into the constitution of all member countries. Legally binding criteria are being introduced compelling European governments to implement rigid savings policies in spite of popular opposition.

This approach is reminiscent of the disastrous policy carried out by the Brüning government in the final phase of the Weimar Republic. The right-wing Zentrum Party politician Heinrich Brüning took over as German chancellor in 1930 in the middle of the global economic crisis and unloaded the burden of the crisis onto the working class. He based his rule on the authority of the President on the one hand and the support of the Social Democrats on the other. Brüning ruled by emergency decree and relied on the SPD to cover his back in the German parliament—much as the technocrat governments in Greece and Italy do today.

Brüning's government was chronically unstable and lasted just two years. Its austerity drive ruined Germany economically and provoked fierce class struggles. Due to the political failure of the Communist Party the National Socialists emerged as the victor from these struggles. In 1932, Brüning was followed by the short-lived dictatorships of the Generals Franz von Papen and Kurt von Schleicher, before Adolf Hitler assumed power in January 1933.

Today there is no lack of appeals to the ruling elite to come to their senses and desist from its devastating policy of Brüning-type austerity. The whole policy of the German Left Party takes this form. The party calls for a return to the "social market economy" of the post-war period and proclaims as its role model Ludwig Erhard, the Economics Minister of the conservative chancellor Konrad Adenauer.

A return, however, to the economic policies of the post-war period is just as impossible as turning an 80-year-old into a 20-year-old. It is precluded by the social changes outlined above. The financial elite, which has emerged from this redistribution of income and wealth, dominates all spheres of economic and social life and is determined to defend its privileges at all cost.

To be continued